Virginia's Center for Innovative Technology

INNOVATIVE TECHNOLOGY AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY

Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2005

AUDIT SUMMARY

Our audit of the Innovative Technology Authority, including its blended component unit, the Center for Innovative Technology, for the year ended June 30, 2005, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The following is a discussion and analysis of Innovative Technology Authority's financial performance, including an overview of activities for the fiscal year ended June 30, 2005. The Innovative Technology Authority (the Authority) is a political subdivision of the Commonwealth of Virginia. Its mission is to accelerate Virginia's next generation of technology and technology companies. The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

Financial Analysis

Net Assets as of June 30, 2005
(with comparative figures for June, 2004)

ASSETS	2005	2004	Change
Current assets	$ 7,981,243	$ 7,353,780	$ 627,463
Noncurrent assets	79,186	788,151	(708,965)
Property and equipment	25,804,450	25,829,772	(25,322)
Total assets	33,864,879	33,971,703	(106,824)
LIABILITIES			
Current liabilities	2,611,836	3,493,722	(881,886)
Long-term liabilities	7,935,000	8,635,000	(700,000)
Total liabilities	10,546,836	12,128,722	(1,581,886)
NET ASSETS			
Invested in capital assets, net of related debt	17,169,450	16,481,833	687,617
Unrestricted	6,148,593	5,361,148	787,445
Total net assets	$23,318,043	$21,842,981	$ 1,475,062

The total combined current assets of Authority and CIT increased by $627,463 from last year primarily due to growing accounts receivable associated with improving gains in capturing federal business. CIT had $3.4 million of revenue from various federal agencies during fiscal year 2005 as opposed to $2 million in fiscal year 2004. Noncurrent assets decreased by $708,965 primarily because of a $700,000 investment, which was reclassified into current assets.

Current liabilities decreased due to a reduction in Grants Payable. Over the last two years, CIT has moved away from being a granting institution. The decrease in long-term liabilities of $700,000 reflects a principal payment on the outstanding long-term bonds payable.

Net assets rose by $1,475,062 substantially due to an increase in federal contract revenue and $420,269 in unrealized gains from CIT's holding of Stereotaxis, Inc. stock.

Revenue, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2005
(with comparative figures for June 30, 2004)

	2005	2004	Change
Operating revenue:			
Rental income	$ 3,168,458	$ 3,015,268	$ 153,190
Federal contracts	3,446,964	2,095,423	1,351,541
Program income	168,085	125,159	42,926
Intellectual property income	296	1,646	(1,350)
VA initiatives - COVITS sponsorships and registrations	970,685	1,014,117	(43,432)
Other income	-	26,195	(26,195)
Total revenue	7,754,488	6,277,808	1,476,680
Expenses:			
Technology programs	7,808,605	4,951,225	2,857,380
Regional operation	2,002,804	2,069,336	(66,532)
Program communication	515,173	664,280	(149,107)
General and administrative costs	1,217,499	1,110,067	107,432
Building expenses	1,559,836	1,480,416	79,420
Depreciation and amortization	805,845	927,871	(122,026)
Other	936	131,659	(130,723)
Total expenses	13,910,698	11,334,854	2,575,844
Nonoperating revenue/(expenses):			
Appropriations from Commonwealth of Virginia	7,748,153	7,248,031	500,122
Interest income and net gain on investment	147,163	143,765	3,398
Unrealized gain on investment	420,269	-	420,269
Interest expense	(684,313)	(738,770)	54,457
Total nonoperating revenue	7,631,272	6,653,026	978,246
Change in net assets	1,475,062	1,595,980	(120,918)
Net assets at July 1, beginning fiscal year	21,842,981	20,247,001	1,595,980
Net assets at June 30, ending fiscal year	$23,318,043	$21,842,981	$1,475,062

For a second year in a row, CIT has made substantial progress in capturing additional revenue from federal agencies. Federal revenue increased by $1.3 million over last year.

The increase in technology program spending is due to the additional expenses associated with the federal business. There were also less grant closeouts over the prior year due to CIT's decreasing emphasis on issuing grants.

Program communications was down by $149,107 over last year due to reductions in staff. Depreciation expense was down from last year because, in fiscal year 2004, the Authority transferred its computer equipment to Virginia Information Technology Agency (VITA); therefore, there was less total asset value to depreciate.

The Authority's fiscal year 2005 appropriation was $500,000 higher than the fiscal year 2004 appropriation because the original fiscal year appropriation was reduced by $500,000 by the General Assembly and then reinstated in fiscal year 2005.

The unrealized gain of $420,269 is attributed to CIT's holding of Stereotaxis, Inc. stock.

Capital Assets and Debt Administration

Capital Assets

Capital Assets as of June 30, 2005
(with comparative figures for June 30, 2004)

	2005	2004	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Building (net of depreciation)	17,770,431	17,769,024	1,407
Furniture, fixture and equipment (net of depreciation)	89,022	115,751	(26,729)
Total capital assets	$25,804,450	$25,829,772	$ 25,322

The Authority invested $771,558 in capital assets during fiscal year 2005. The major purchase of $700,000 was associated with improvements with the portion of the building that houses the System and Software Consortium* (SSC). The cost of these improvements was offset by $796,880 of depreciation.

Debt

At year-end, the Authority had $8,635,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13,300,000 to finance the construction of the SSC portion of the Authority building located in Herndon, Virginia. On May 1, 1997, Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds is detailed in Note I in the Notes to the Financial Statements.

A lease between the Commonwealth of Virginia and the Authority secures the outstanding bonds. This lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance cost of the SSC portion of the building. In turn, the Commonwealth of Virginia has a sublease with SSC.

* Formerly known as the Software Productivity Consortium (SPC)

FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2005

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 5,818,884
Short-term investments, at cost (Note B)	700,000
Investments in equity securities (Note B)	420,269
Accrued interest receivable, prepaid expenses and deposits	88,964
Accounts and accrued receivables (Note C)	1,203,063
Less: Allowance for bad debts (Note C)	(349,937)
Notes receivable (Note D)	520,000
Less: Allowance for bad debts (Note D)	(420,000)
Total current assets	7,981,243
Noncurrent assets:	
Unamortized expense of bond issue	79,186
Capital assets (Note E):	
Land and land improvements	7,944,997
Building	25,832,598
Less accumulated depreciation	(8,062,167)
Furniture, fixtures and equipment	1,841,189
Less accumulated depreciation	(1,752,167)
Total building property and equipment	25,804,450
Total assets	33,864,879
LIABILITIES	
Current liabilities:	
Accrued interest payable	106,976
Compensated absences (Note G)	125,384
Accounts payable and accrued expenses	632,751
Due to Commonwealth of Virginia	516,029
Grants payable (Note H)	464,955
Bonds payable - short-term (Note I)	700,000
Security deposits	65,741
Total current liabilities	2,611,836
Long-term liabilities:	
Bonds payable (Note I)	7,935,000
Total liabilities	10,546,836

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2005

NET ASSETS	
Investment in property and equipment, net of related debt	17,169,450
Unrestricted net assets	6,148,593
Total net assets	$ 23,318,043

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

Operating revenues:	
Rental income - Lease revenue	$ 1,775,906
Rental income - Bonds	1,392,552
Federal contracts	3,446,964
Entrepreneurism	152,955
Regional operation (Note M)	7,880
IDHS membership (Note M)	7,250
VA initiatives-COVITS sponsorships and registrations	970,685
Royalty income - Intellectual Property	296
Total operating revenue	7,754,488
Operating expenses:	
Program expenses:	
Grants and program costs	5,810,444
IDHS consultant	269,015
Salary and benefits	3,076,162
Administrative cost	765,896
Awards close-out	(110,108)
Total program expenses	9,811,409
Management and administration:	
Program communications:	
Grants and program costs	265,375
Salary and benefits	211,816
Administrative cost	37,982
Total program communications	515,173
General and administrative:	
Salaries and related costs	902,932
Other administrative	314,567
Building expense	1,559,836
Depreciation and amortization	805,845
Bank fees on building account	495
Bad debt expense	441
Total general and admininstrative costs	3,584,116
Total operating expenses	13,910,698
Operating loss	(6,156,210)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

Nonoperating revenue/(expenses):	
Appropriations from Commonwealth of Virginia	7,748,153
Interest income	147,163
Unrealized gain on investment	420,269
Interest expense - Bonds	(684,218)
Interest expense - Capital leases	(95)
Total nonoperating revenue	7,631,272
Change in net assets	1,475,062
Net assets at July 1, 2004	21,842,981
Net assets at June 30, 2005	$ 23,318,043

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Cash flows from operating activities:	
Rental income received	$ 3,210,499
Security deposits money received	8,859
Intellectual property royalties received	296
Program money received	68,086
Federal contracts money received	3,076,183
Cash receipts from COVITS sponsorships and registrations	970,685
Other money received/(spent)	20,777
Payments to vendors	(9,614,063)
Payments to grantees	(1,176,020)
Payments to employees	(3,191,914)
Net cash used for operating activities	(6,626,612)
Cash flows from noncapital financing activities:	
Appropriation received from the Commonwealth of Virginia	7,748,153
Net cash provided/(used) by noncapital financing activities	7,748,153
Cash flows from investing activities:	
Disposition of short-term investments (net of discount or premium)	2,983,556
Reclassification of long-term investments to short-term	(700,000)
Reclassification of long-term investments to short-term	700,000
Interest received	147,613
Net cash provided by investing activities	3,131,169
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(3,570)
Acquisition and construction of capital assets - ITA	(767,989)
Cash payments on Capital Leases	(2,939)
Cash payment to retire bond indenture	(710,000)
Payments for interest	(692,784)
Net cash used for capital and related financing activities	(2,177,282)
Net increase in cash and cash equivalents	2,075,428
Cash and cash equivalents at July 1, 2004	3,743,456
Cash and cash equivalents at June 30, 2005	$ 5,818,884

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Cash flows from operating activities:	
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities	
Operating income/(loss)	$ (6,156,210)
Adjustments to reconcile operating income/(loss) to net cash	
Depreciation	796,880
Change in assets and liabilities:	
(Increase)/Decrease in account receivable	(407,963)
(Increase)/Decrease in prepaids and deposits	(7,810)
(Increase)/Decrease in unamortized expense of bond issue	8,965
Increase/(Decrease) in accounts payable and accrued expenses	(33,704)
Increase/(Decrease) in security deposits	8,859
Increase/(Decrease) in grants payable	(956,578)
Increase/(Decrease) in compensated absences	(11,247)
Increase/(Decrease) in due to Commonwealth of Virginia	132,196
Net cash provided by operating activities	$ (6,626,612)

NOTES TO FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (the Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth of Virginia, as authorized by the Innovative Technology Authority Act, Title 2.2, Chapter 22, Article 3 of the Code of Virginia. The Authority's mission is to accelerate Virginia's next generation of technology and technology companies. The Innovative Authority Act provides for the Authority to form a nonstock corporation to carry out the mission of the Authority. CIT is the nonstock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. The Virginia General Assembly 2005 Session, Virginia Acts of Assembly Chapter 951, authorizes the Authority to transfer funds appropriated to it by the Commonwealth of Virginia to CIT for use in realizing its mission.

The financial statements of the Authority, including its blended component unit CIT are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth of Virginia that is attributable to the transactions of the Authority including its blended component unit CIT. The financial statements are prepared on the accrual basis of accounting. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Capital Assets: Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is recorded on the straight-line basis over estimated useful lives of the assets ranging from two to forty years. The Authority uses a $3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the Authority is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth of Virginia's economic growth through technology by funding research and sponsoring programs. Currently, non-operating activity relates to appropriations from the Commonwealth of Virginia, investment activities such as interest income, and interest expense.

Income Taxes: The Authority is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - CASH AND INVESTMENTS

The Governmental Accounting Standards Board (GASB) issued Statement 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB 3, which modified previous disclosure requirements related to investment risk and became effective beginning for the fiscal year ended June 30, 2005. Required investment risk disclosures address credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk and foreign currency risk. The Statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts.

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2 4500. The investment policy establishes guidelines for securities the Authority and CIT is to invest its money in including quality of investment, maturity, and investment yields.

Certain deposits and investments are maintained by the Authority or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of New York or Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Deposits: Deposits and investments held by Bank of New York, as trustee, are accounted for in accordance with the provisions of the Master Indenture of Trust Agreement and the Supplemental Indenture of Trust Agreement between the Authority and the trustee.

All deposits of the Authority and CIT are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Amounts on deposit and covered by the Virginia Security of Public Deposits Act totaled $226,406 at June 30, 2005. Such deposits are not subject to foreign currency risk.

Custodial Credit Risk: GASB 40 amends the requirements set out in GASB 3, by only requiring disclosure of uncollateralized deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government’s name. The Authority and CIT had no investments exposed to custodial credit risk.

Credit Rate Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. LGIP is rated AAA by Standard and Poor’s.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents 5 percent or more of total investments. At June 30, 2005, the CIT held 52,468 shares of common stock in Stereotaxis, Inc. The fair market value of the stock at June 30, 2005 was $420,269, which represents six percent of the Authority and CIT’s total cash, cash equivalents, and investments.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority and CIT have no foreign investments or deposits for 2005.

Credit Quality and Interest Rate Risk:

	Fair Value	Credit Rating	Investment Maturities (in years) Less Than 1 Year
Cash equivalents			
Cash in the office	$ 700		$ -
Deposits	226,406		-
Local Government Investment Pool	5,591,778	AAA	-
Total cash equivalents	$5,818,884		$ -
Investments subject to interest rate risk			
Fannie Mae note	$ 700,000	Unrated	$700,000
Total investments subject to interest rate risk	$ 700,000		$700,000

NOTE C - ACCOUNTS RECEIVABLE AND ACCRUED REVENUE.

The Authority held accounts receivable totaling $11,613 for rental income and $834 for miscellaneous receivables less an allowance for doubtful accounts of $3,657. CIT held accounts receivable totaling $1,079,974 for federal grants, direct funding agreements and miscellaneous receivables, $101,616 of accrued revenue for federal grants and $9,026 of account receivable related to the Innovative Technology Foundation, with an allowance for doubtful accounts of $346,280.

In 1997 and 1998, CIT had a pilot program that provided funding directly to promising emerging companies. These companies signed an agreement with CIT to repay two-times the funding over a five- to ten-year repayment schedule. Funding to four companies totaled $750,000. To date, CIT has collected $60,300. CIT relieved $30,000 from Oceana Sensors Technology, Inc. to use as matching to help Oceana get an ATP Award. In 2005, CIT wrote off as uncollectible the remaining accounts receivable balances of $120,000 of Oceana Sensor Technologies, Inc, and $200,000 of Croptech Development Corporation.

Because of risks involved with emerging companies, CIT has elected to set up an allowance equivalent to the outstanding balance. As of June 30, 2005, $339,700 of the allowance for doubtful accounts balance of $346,280 pertains to the direct funding agreements.

NOTE D - NOTES RECEIVABLE

CIT has entered into six convertible note purchase agreements with promising emerging companies under its Growth Acceleration Program (GAP). Each promissory note has a maturity date of one year from issuance. Payment due at maturity is principal plus eight percent interest. At CIT's option, CIT may convert the note into equity securities of the company, subject to the terms of the note. At June 30, 2005, CIT has $520,000 in notes receivable.

Because of the risk involved with an emerging company, CIT has elected to set up an allowance of $420,000.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2005:

Account	Beginning Balance	Acquisitions or Additional Depreciation	Sales or Dispositions	Ending Balance
Land and land improvements	$ 7,944,997	$ -	$ -	$ 7,944,997
Building	25,083,958	748,640	-	25,832,598
Accumulated depreciation	(7,314,934)	(747,233)	-	(8,062,167)
Furniture, fixtures, and equipment	1,890,971	22,918	(72,700)	1,841,189
Accumulated depreciation	(1,775,220)	(49,647)	72,700	(1,752,167)
Total	$25,829,772	$ (25,322)	$ -	$25,804,450

NOTE F - CONTINGENT LIABILITIES

At June 30, 2005, CIT had contingent liabilities related to six term sheets (letters of intent) for Growth Acceleration Program investments totaling $550,000. The term sheets state CIT's intention to enter into a convertible note purchase agreement with the company, subject to certain conditions. The letters of intent expire 90 days after issuance. Of the six term sheets at June 30, 2005, CIT has entered into a convertible note purchase agreements with one company, in the amount of $100,000 subsequent to year-end. The remaining term sheets expired with no action subsequent to year-end.

NOTE G - COMPENSATED ABSENCES

It is CIT's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry 80 hours of annual leave forward to the following year.

NOTE H - GRANTS PAYABLE

Grants are awarded to Virginia colleges and universities for scientific research and to Virginia headquartered and operated companies to promote research and development. Cash is transmitted to the award recipients as needed to fund grant disbursements. The grants payable represents the balance of grant awards not paid at June 30, 2005.

NOTE I - BONDS PAYABLE

The Authority issued $12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the Authority and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York). The Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth of Virginia leases facilities from the Authority. The lease calls for the Commonwealth of Virginia to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the System and Software Consortium (SSC) portion of the building. In turn, the Commonwealth of Virginia has a sublease with SSC.

Balance July 1, 2004	Issuances	Retirements	Balance June 30, 2005	Amount Due Within One Year
$9,345,000	$ -	$ 710,000	$8,635,000	$ 700,000

The following amortization schedule illustrates the Authority's principal and interest requirements for the Series 1997 Bonds.

Year Ending June 30,	Principal	Interest	Total
2006	$ 700,000	$ 641,855	$ 1,341,855
2007	790,000	591,525	1,381,525
2008	875,000	534,013	1,409,013
2009	855,000	470,050	1,325,050
2010	935,000	407,208	1,342,208
2011-2014	4,480,000	867,808	5,347,808
Total	$8,635,000	$3,512,459	$12,147,459

NOTE J - EQUITY POSITIONS

CIT holds equity positions in several start-up organizations acquired through its Intellectual Property program. There were no new acquisitions in fiscal year 2005. Titles for technologies that were given to the start-up companies in return for stock position in the companies have been transferred to CIT from the universities without cost to CIT, therefore, there is no cost basis to assess the stock. All but one of these securities are not traded on the open market and it is difficult to determine a market value. Since there is no clear assessment of value at either cost or market, these equity positions have not been recorded as assets of CIT. However, CIT does hold a stock position in a company, which went public in 2005. This stock is valued at market on the Statement of Net Assets and the unrealized gain is reported on the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE K - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation. The Innovative Technology Foundation (ITF) is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of public and private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the Authority and CIT. On June 30, 2005, ITF owed CIT $9,026 for legal and consultant's fees paid on its behalf. At June 30, 2005, the Foundation's unaudited net assets totaled $322,535.

NOTE L - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled $403,425 in 2005 for payroll of $3,191,914.

NOTE M - PROGRAM REVENUE

CIT started to charge nominal fees for programs and services the regional offices provided to its customers. The fees received in fiscal year 2005 were $7,880. CIT has held very specific educational seminars and charged a nominal fee to avoid attendees registering for the seminar and not attending. Fees charged for these seminars were $50,095. CIT also received IDHS membership fees of $7,250.

NOTE N - RISK MANAGEMENT

CIT is exposed to various risks of loss related to: torts, theft or damage and destruction to assets, errors and omissions, non-performance of duty, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, surety bond, errors, and omissions, and worker's compensation. CIT is insured for these risks through commercial insurance policies with Chubb Insurance Company. CIT's health care plan is administered by Anthem. CIT pays premiums to each of these companies for its insurance coverage.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2005

	ITA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	$ 349,538	$ 5,469,346	$ -	$ 5,818,884
Short-term investments	700,000	-	-	700,000
Investments in equity securities	-	420,269	-	420,269
Accrued interest receivable, prepaid expenses and deposits	5,217	83,747	-	88,964
Accounts and accrued receivables	12,447	1,190,616	-	1,203,063
Less: Allowance for bad debts	(3,657)	(346,280)	-	(349,937)
Notes receivable	-	520,000	-	520,000
Less: Allowance for bad debts	-	(420,000)	-	(420,000)
Due from CIT	1,095,129	-	(1,095,129)	-
Total current assets	2,158,674	6,917,698	(1,095,129)	7,981,243
Noncurrent assets:				
Unamortized bond issuance expense	79,186	-	-	79,186
Property and equipment:				
Land and land improvements	7,944,997	-	-	7,944,997
Building	25,832,598	-	-	25,832,598
Less accumulated depreciation	(8,062,167)	-	-	(8,062,167)
Furniture, fixtures and equipment	1,841,189	-	-	1,841,189
Less accumulated depreciation	(1,752,167)	-	-	(1,752,167)
Total property and equipment	25,804,450	-	-	25,804,450
Total assets	28,042,310	6,917,698	(1,095,129)	33,864,879
LIABILITIES				
Current liabilities:				
Due to ITA	-	1,095,129	(1,095,129)	-
Accrued interest payable	106,976	-	-	106,976
Compensated absences	-	125,384	-	125,384
Accounts payable and accrued expenses	99,735	533,016	-	632,751
Due to Commonwealth of Virginia	516,029	-	-	516,029
Grants payable	-	464,955	-	464,955
Bonds payable - short term	700,000	-	-	700,000
Security deposits	65,741	-	-	65,741
Total current liabilities	1,488,481	2,218,484	(1,095,129)	2,611,836

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2005

	ITA	CIT	Eliminating Entry	Total
Long-term liabilities:				
Bonds payable	7,935,000	-	-	7,935,000
Total liabilities	9,423,481	2,218,484	(1,095,129)	10,546,836
NET ASSETS				
Investment in property and equipment, net of related debt	17,169,450	-	-	17,169,450
Unrestricted	1,449,379	4,699,214	-	6,148,593
Total net assets	$ 18,618,829	$ 4,699,214	$ -	$ 23,318,043

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	ITA	CIT	Total
Operating revenue:			
Rental income - lease revenue	$ 1,775,906	$ -	$ 1,775,906
Rental income - bonds	1,392,552	-	1,392,552
Federal contracts	-	3,446,964	3,446,964
Entrepreneurism	-	152,955	152,955
Regional operation	-	7,880	7,880
IDHS membership	-	7,250	7,250
VA initiatives-COVITS sponsorships and registrations	-	970,685	970,685
Royalty income - Intellectual Property	-	296	296
Total operating revenue	3,168,458	4,586,030	7,754,488
Operating expense:			
Program expenses:			
Research investment:			
Grants and program costs	-	77,545	77,545
Salary and benefits	-	395,587	395,587
Administrative cost	-	77,896	77,896
Awards close out	-	(110,108)	(110,108)
Total research investment	-	440,920	440,920
Develop entrepreneurial technology:			
Grants and program costs	-	831,051	831,051
Salary and benefits	-	505,697	505,697
Administrative cost	-	137,291	137,291
Total develop entrepreneurial technology	-	1,474,039	1,474,039
Regional operations:			
Grants and program costs	-	176,677	176,677
Salary and benefits	-	1,449,731	1,449,731
Administrative cost	-	376,396	376,396
Total regional operations	-	2,002,804	2,002,804
Broadband:			
Grants and program costs	-	163,720	163,720
Salary and benefits	-	128,402	128,402
Administrative cost	-	42,560	42,560
Total broadband	-	334,682	334,682

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	ITA	CIT	Total
Federal Programs:			
IDHS consultant	-	269,015	269,015
Grants and program costs	-	3,103,015	3,103,015
Salary and benefits	-	375,452	375,452
Administrative cost	-	90,286	90,286
Salary and benefits- IDHS	-	43,387	43,387
Administrative cost- IDHS	-	8,431	8,431
Total federal programs	-	3,889,586	3,889,586
Business development:			
Grants and program costs	-	213,715	213,715
Salary and benefits	-	140,518	140,518
Administrative cost	-	25,920	25,920
Total business development	-	380,153	380,153
Virginia initiatives:			
Grants and program costs	-	1,244,721	1,244,721
Salary and benefits	-	37,388	37,388
Administrative cost	-	7,116	7,116
Total virginia initiatives	-	1,289,225	1,289,225
Total program expenses	-	9,811,409	9,811,409
Communications:			
Grants and program costs	-	265,375	265,375
Salary and benefits	-	211,816	211,816
Administrative cost	-	37,982	37,982
Total communications	-	515,173	515,173
General and administrative:			
Salaries and related Costs	-	902,932	902,932
Other administrative	-	314,567	314,567
Building expense	1,559,836	-	1,559,836
Bank fees and bad debt expense	495	441	936
Depreciation and amortization	805,845	-	805,845
Total general and administrative expenses	2,366,176	1,217,940	3,584,116
Total operating expenses	2,366,176	11,544,522	13,910,698
Operating income/(loss)	802,282	(6,958,492)	(6,156,210)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	ITA	CIT	Total
Nonoperating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia	7,748,153	-	7,748,153
Interest income	19,711	127,452	147,163
Gain on investment	-	420,269	420,269
Interest expense	(684,313)	-	(684,313)
Total nonoperating revenue/(expenses)	7,083,551	547,721	7,631,272
Income/(loss) before transfers	7,885,833	(6,410,771)	1,475,062
Transfers and other changes:			
Transfer in/(out)	(7,748,153)	7,748,153	-
Transfer in/(out)	3,570	(3,570)	-
Net transfers and other changes	(7,744,583)	7,744,583	-
Change in net assets	141,250	1,333,812	1,475,062
Net assets at July 1, 2004	18,477,579	3,365,402	21,842,981
Net assets at June 30, 2005	$ 18,618,829	$ 4,699,214	$ 23,318,043

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 3,210,499	$ -	$ 3,210,499
Security deposits money received	8,859	-	8,859
Intellectual property royalties received	-	296	296
Program money received	-	68,086	68,086
Federal contracts money received	-	3,076,183	3,076,183
Cash receipts from COVITS sponsorships and registrations	-	970,685	970,685
Other money received	-	20,777	20,777
Payments to vendors	(1,681,494)	(7,932,569)	(9,614,063)
Payments to grantees	-	(1,176,020)	(1,176,020)
Payments to employees	-	(3,191,914)	(3,191,914)
Net cash provided/(used) by operating activities	1,537,864	(8,164,476)	(6,626,612)
Cash flows from noncapital financing activities:			
Appropriation received from the Commonwealth	7,748,153	-	7,748,153
Operating transfers (out)/in	(7,748,153)	7,748,153	-
Transfers to ITA/(from CIT)	3,570	(3,570)	-
Net cash provided/(used) by noncapital financing activities	3,570	7,744,583	7,748,153
Cash flows from investing activities:			
Disposition of short-term investments	-	2,983,556	2,983,556
(net of discount or premium)	-	-	-
Reclassification of long-term investments to short-term	(700,000)	-	(700,000)
Reclassification of long-term investments to short-term	700,000	-	700,000
Interest received	19,726	127,887	147,613
Net cash provided by investing activities	19,726	3,111,443	3,131,169
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - CIT	(3,570)	-	(3,570)
Acquisition and construction of capital assets - ITA	(767,989)	-	(767,989)
Cash payments on capital leases	(2,939)	-	(2,939)
Cash payment to retire bond indenture	(710,000)	-	(710,000)
Payments for interest	(692,784)	-	(692,784)
Net cash used for capital and related financing activities	(2,177,282)	0	(2,177,282)
Net decrease in cash and cash equivalents	(616,122)	2,691,550	2,075,428
Cash and cash equivalents at July 1, 2004	965,660	2,777,796	3,743,456
Cash and cash equivalents at June 30, 2005	$ 349,538	$ 5,469,346	$ 5,818,884

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Indirect Method:

	ITA	CIT	Total
Cash flows from operating activities:			
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	$ 802,282	$ (6,958,492)	$ (6,156,210)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation	796,880	-	796,880
Change in assets and liabilities:			
(Increase)/Decrease in account receivable	42,040	(450,003)	(407,963)
(Increase)/Decrease in due from CIT	(353,094)	353,094	-
(Increase)/Decrease in prepaids and deposits	-	(7,810)	(7,810)
(Increase)/Decrease in unamortized expense of bond issue	8,965	-	8,965
Increase/(Decrease) in accounts payable and accrued expenses	99,736	(133,440)	(33,704)
Increase/(Decrease) in security deposits	8,859	-	8,859
Increase/(Decrease) in grants payable	-	(956,578)	(956,578)
Increase/(Decrease) in compensated absences	-	(11,247)	(11,247)
Increase/(Decrease) in due to Commonwealth of Virginia	132,196	-	132,196
Net cash provided by operating activities	$ 1,537,864	$ (8,164,476)	$ (6,626,612)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Year Ended June 30, 2005

	ITA	CIT	Total
Undesignated:			
Beginning balance	$ 65,865	$ 2,773,321	$ 2,839,186
Change in net assets	141,250	1,333,812	1,475,062
Depreciation	796,880	-	796,880
Assets acquired for operations	(22,918)	-	(22,918)
Interest income designated to building	(8,876)	-	(8,876)
Transfer net profit from building operations to designated to building	(216,070)	-	(216,070)
Interest income received on $700,000 investment	(16,275)	-	(16,275)
Bond payment	(710,000)	-	(710,000)
Capital lease payments	(2,939)	-	(2,939)
Bank fees on building reserve	495	-	495
Unrealized gain on Stereotaxis stock	-	(420,269)	(420,269)
Change in COVITS reserve during fiscal year 2005	-	274,037	274,037
Total Undesignated	27,412	3,960,901	3,988,313
Designated to unrealized gain on Stereotaxis stock:			
Beginning balance	-	-	-
Unrealized gain on Stereotaxis stock	-	420,269	420,269
Total designated to unrealized gain on Stereotaxis stock	-	420,269	420,269
Designated to reserve for COVITS fiscal year 2005:			
Beginning Balance	-	592,081	592,081
Fiscal year 2005 revenue	-	970,685	970,685
Fiscal year 2005 expenses	-	(1,244,722)	(1,244,722)
Total designated to reserve for COVITS fiscal year 2005	-	318,044	318,044
Investment in property and equipment:			
Beginning balance	16,481,833	-	16,481,833
Capital lease payments	2,939	-	2,939
Purchases for operations	22,918	-	22,918
Purchases for building/land improvements	748,640	-	748,640
Depreciation	(796,880)	-	(796,880)
Bond payment	710,000	-	710,000
Total	17,169,450	-	17,169,450

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Year Ended June 30, 2005

	ITA	CIT	Total
Designated to building project:			
Beginning balance	1,929,881	-	1,929,881
Transfer net profit from building operations to designated to building	216,070	-	216,070
Interest income desgnated to building	8,876	-	8,876
Interest income received on $700,000 investment	16,275	-	16,275
Expenditures for the building	(748,640)	-	(748,640)
Bank fees on building reserve	(495)	-	(495)
Total	1,421,967	-	1,421,967
Total fund balance	$ 18,618,829	$ 4,699,214	$ 23,318,043

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 7, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Innovative Technology Authority and
Center for Innovative Technology

We have audited the accounts and records of the **Innovative Technology Authority** as of and for the year ended June 30, 2005, and submit herewith our complete reports on financial statements and compliance and internal controls over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Innovative Technology Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages one through three, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statements and Schedule of Analysis of Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements and Schedule of Analysis of Fund Balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2005, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grant agreements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, and the Innovative Technology Authority and Center for Innovative Technology Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 17, 2005.

AUDITOR OF PUBLIC ACCOUNTS

DBC:sks
sks: 47

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS
As of June 30, 2005

Paula Gulak, Chairman

Rakesh C. Gupta
Eugene J. Huang
Maloy I. Jones
Suzanne H. King
Daniel LaVista
Stan Maupin
Gerald S. McGowan

Eddie Moore
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Peter J. Jobse, President, CIT

Linda E. Gentry, Treasurer and Secretary